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FOREIGN POLICY BULLETIN

An interpretation of current international events by the Research Staff of the Foreign Policy Association

FOREIGN POLICY ASSOCIATION, Incorporated

22 East 38th Street, New York 16, N. Y.

Vol. XXV, No. 39

JULY 12, 1946

BIG FOUR AGREE ON FREE DISCUSSION BY PEACE CONFERENCE

WHEN the peace conference of the twenty-one nations which participated in the war against Germany meets in Paris on July 29, it will have before it decisions on a wide range of territorial and economic questions reached by the Council of Foreign Ministers that met for its fourth session on June 15. Under the draft treaties drawn up at Paris, the Foreign Ministers recognize certain boundary changes which have already taken place. The most important of these are the transfer of Northern Transylvania from Hungary, to which it had been allotted by Hitler in 1940, to Rumania; the cession of the province of Southern Dobruja to Bulgaria by Rumania, which had acquired it at the end of World War I; and the relinquishment by Rumania of Bessarabia (a part of Russia before 1918) and Northern Bukovina to the U.S.S.R., effected before Germany's invasion of Russia. The draft peace treaty with Finland confirms the cession to Russia of the Karelian Isthmus above Leningrad and the port of Petsamo on the Arctic.

ITALY CHIEF LOSER. Of the five European countries that fought on the side of the Axis, Italy, which went over earliest to the Allies, comes out with the heaviest losses. Italy must transfer the Dodecanese Islands in the Aegean (which it had obtained from Turkey during the Italo-Turkish war of 1911-12) to Greece. It must cede to France the Briga-Tenda area a few miles from Nice, containing important hydroelectric developments. Italy must also renounce all claims to its colonies in Africa, which will continue to be administered by the British, who occupied them during the African campaigns of the 1940's, until the Big Four agree on final disposition of these strategically situated territories. If no agreement is reached within a year, the problem of Italy's colonies will be referred to the General

Assembly of the United Nations. Contrary to general expectations, as well as to ethnic considerations, the Austrian-populated South Tyrol, ceded to Italy under the Treaty of St. Germain of 1919, is to remain part of Italy, to the profound distress of the Austrians.

COMPROMISE ON TRIESTE. The most thorny question on the agenda was that of Trieste and the adjoining area of Venezia Giulia, claimed with equal vigor by Italy and Yugoslavia. Italy's position had been supported by Britain and the United States. This shocked Yugoslavia, which felt that its sacrifices during the war entitled it to far greater consideration than Italy, who not only had fought on Germany's side but had wreaked destruction on its Slav neighbor. Russia, for its part, supported the claims of Yugoslavia, having itself an interest in the future of the Adriatic. Even without the backing of Moscow, however, Belgrade would probably have stood firm on Trieste, as it did in 1919 on Fiume, when Russia was excluded from the Paris Peace Conference. The compromise finally reached by the Foreign Ministers, although probably the most practicable that could be obtained, is disappointing to both Italy and Yugoslavia, and is destined to become a threat to peace in that region unless it is firmly enforced against opposition from any quarter. The Italo-Yugoslav boundary is set approximately along the so-called French line, proposed by Georges Bidault, President and Foreign Minister of France, who struggled hard to reconcile the conflicting views of his colleagues. Yugoslavia will thus acquire 3,000 square miles, including most of the Isonzo Valley and nearly all the Istrian peninsula, with a population of 376,000 Yugoslavs and an Italian minority of 128,000. The city of Trieste, an important port on the Adriatic,

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and the surrounding area, estimated at about 300 square miles altogether, are to become the "Free Territory of Trieste," and to be placed under the administration of the United Nations, which will guarantee its territorial integrity and independence. Since the UN at the present time has no machinery for governing territories outside of dependent colonial areas, a new agency for this purpose will have to be established—as the League of Nations found it necessary to do in the comparable case of the Free City of Danzig.

In addition to territorial losses, Italy, according to a last-minute concession made by Secretary of State Byrnes, will have to pay Russia \$100,000,000 over a period of seven years in reparations for damage inflicted by Italian troops during the invasion of the Ukraine. The reparations claims of Greece, Yugoslavia and other countries against Italy are to be considered at the peace conference. It was also agreed, contrary to views previously expressed by the United States and Britain, that Italian reparations to Russia should come out of current industrial production—thus directly aiding Russia's reconstruction—and that Italian warships should be considered as war booty, and not as reparations. The Italian navy is to be limited to two small battleships and four cruisers. Within three months after the treaties come into effect, American and British troops are to be evacuated from Italy, and Russian troops from Bulgaria.

The immediate reaction in Italy to the Paris decisions was an explosion of resentment against the Big Four, especially against France because of its so-called "stab in the back," but most of all against Britain and the United States which, according to the Italian view, had received substantial aid from Italy after its surrender in 1943, and therefore should have spared the country from the humilia-

tion of a harsh peace. This resentment may have adverse effects on the internal stability of Italy which, in spite of the strong support recently registered at the polls for a republican régime and a moderate government typified by the program of the Christian Democrats, continues to be threatened by economic difficulties and particularly by the danger of inflation.

GREAT POWERS VERSUS SMALL NATIONS. Meanwhile, the same issue between Russia and the Western powers that has overshadowed the discussions of the Security Council and the Atomic Energy Commission arose in Paris over plans for the peace conference. Ever since Dumbarton Oaks Moscow has made it plain that it wants all important policies of peace-making to be determined by the powers that bore the brunt of winning the war—that is the United States, Russia and Britain. It was with great reluctance that Stalin, at Yalta, agreed to President Roosevelt's suggestion for submission of the Dumbarton Oaks proposals to the scrutiny of other nations at San Francisco; and at San Francisco the Russians did everything in their power to retain authority in the hands of the Big Three, or at least the Big Five. The Soviet government wanted to make sure that the terms agreed upon by the Big Four would not be materially altered by other nations invited to the peace conference. Britain and the United States, for their part, were determined to see to it that the conference should be, not a mere rubber-stamp for the Paris decisions, but a free forum for criticism and discussion. The decision reached on July 8—that the general peace conference will be free to make its own rules and to discuss all parts of the five draft treaties—should serve to ease the tension between Russia and the Western powers in Europe.

VERA MICHELES DEAN

FREER WORLD TRADE HINGES ON BRITISH LOAN

The delay of Congress in approving the \$3,750,000,000 loan to Britain has been primarily responsible for the announcement on June 19 that the International Trade Conference will not meet until next spring. The conference was to have been this summer to draft commercial treaties embodying the United States proposals for non-discriminatory, multilateral trade. The American proposals were accepted "in principle" by the British during the negotiations for the loan agreement, the purpose of which was to provide Britain with sufficient dollar exchange so that it could liberalize its trade policy. Pending approval of the loan by the House of Representatives, it is not surprising that the trade conference should have been delayed.

THE LOAN AND BRITISH TRADE POLICY. An important problem of world trade today is that Britain and other European trading nations continue

to experience a large deficit in their balance of payments. Since 1938 British overseas investments have declined by approximately \$4.5 billion; foreign short-term debts have increased fourfold, amounting to about \$15 billion at the beginning of 1946. In the meantime revenue from banking, shipping, insurance and other services has fallen drastically. These sources of foreign exchange cannot be quickly restored. Moreover, Britain's internal economy was greatly weakened as a result of the war; according to one estimate, the amount of physical assets used up and not replaced during the six years 1940-45 was roughly \$5.2 billion. Heavy imports will therefore be required to restore productive capacity. Until such time as exports can be considerably expanded—it has been officially estimated that exports must be increased until they are at least 75% above the pre-war level—British receipts will continue to fall

short of the necessary payments that must be made abroad. Exports in May were 15% above the monthly average of 1938, but a serious coal shortage is threatening further progress.

Given the almost insuperable balance of payments problem, London's acceptance of the American trade program was necessarily conditional on a grant of substantial dollar credits by the United States. Lacking adequate foreign exchange, especially dollars, Britain has developed the maximum amount of trade within the sterling area, and in doing so has maintained a rigid system of foreign exchange control. The avowed wartime purpose of this policy was to create a dollar pool, from which payments were made only for essentials that could not possibly be obtained in sterling area countries. While the extent to which members can draw on the dollar pool has been somewhat liberalized, the exchange control system nonetheless continues in force. Under the terms of the American loan agreement, however, Britain undertook to dissolve the dollar pool for current transactions within one year after the effective date of the agreement. Should Congress fail to approve the loan, Britain will continue and, insofar as possible, extend its wartime arrangements with members of the sterling group. Purchases from the United States will be held to a minimum determined by the dollar receipts of member countries.

BRITAIN'S OBJECTIVES OUTSIDE STERLING AREA. Beginning with an agreement with Belgium in October 1944, Britain has signed bilateral financial pacts with Holland, France, Czechoslovakia, Denmark, Sweden, Finland, Switzerland, Turkey, and Greece. These agreements represent a mutual effort to overcome the handicap to foreign trade arising from the lack of balance in international payments. They also enable the participants to obtain a certain amount of imports without the use of dollars. Moreover, they contain clauses that limit the convertibility of sterling into third currencies. In that respect they are decidedly at variance with the principles of multilateral exchange and trade. Such agreements, however, are not the results of any deliberate effort by Britain to foster a postwar world trading system based on restrictive bilateral treaties; on the contrary, they are unavoidable given the present disordered state of world commerce. Several of the countries that have concluded financial pacts with Britain have also signed similar trade agreements with each other. Thus, for example, Sweden and France announced on June 28 a new trade treaty calling for an exchange of each other's products

within specified limits. A similar treaty was signed by Sweden and the Netherlands on June 29.

OUTLOOK FOR MULTILATERAL TRADE. Even should Congress approve the loan to Britain, an immediate return to freer world trade cannot be expected. Although Britain has agreed to abolish exchange control, it remains free to continue the system of licensing imports. If Britain is to make a permanent transition to a system of multilateral trade, it can do so only by reorganizing and modernizing its export industries. Its success to date in restoring exports has been largely due to the fact that it has not yet had to compete with this country in the sale abroad of vehicles, machinery, iron and steel—items at present heading the British export list. These are export lines in which British producers for the most part have never been able to match their American competitors.

Britain, moreover, is not the only country which will find acceptance of a freer world trading system difficult and uncertain. The economies of France, the Netherlands, and Belgium, for example, were devastated by the war, and enormous reconstruction programs must be carried out if they are to compete successfully in foreign markets. Heavy imports for reconstruction create a difficult problem of balancing international payments. The rebuilding programs will involve large domestic outlays that will increase money incomes; and unless restrictions are continued on imports, non-essential purchases will be made abroad, dissipating the already scant supplies of foreign exchange.

HAROLD H. HUTCHESON

(The second of three articles on postwar commercial policy.)

The Great Retreat, by N. S. Timasheff. New York, E. P. Dutton, 1946. \$5.00

The Russian-born author, who left Russia in 1921, and since 1940 has been a member of the sociology staff at Fordham University, analyzes what he describes as "the growth and decline of Communism in Russia." He reaches the conclusion that all the achievements of the past quarter of a century for which the Soviet leaders have taken credit would have been won—without the resultant cost in human suffering—had Russia continued without revolution on the course it was following before 1917.

The Basis of Soviet Strength, by George B. Cressey. New York, Whittlesey, 1945. \$3.00

An excellent summary of the natural resources of the U.S.S.R. and its industrial potential, by an authority in the field of geology.

France: A Short History, by Albert Guérard. New York, Norton, 1946. \$3.00

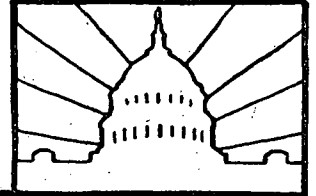
A vividly written history of France that is the product of years of reflection and scholarship.

FOREIGN POLICY BULLETIN. Vol. XXV, No. 39, JULY 12, 1946. Published weekly by the Foreign Policy Association, Incorporated. National Headquarters, 22 East 38th Street, New York 16, N. Y. FRANK ROSS MCCOY, *President Emeritus*; DOROTHY F. LEET, *Secretary*; VERA MICHELES DEAN, *Editor*. Entered as second-class matter December 2, 1921, at the Post Office at New York, N. Y., under the Act of March 3, 1879. Three Dollars a Year. Please allow at least one month for change of address on membership publications.

F. P. A. Membership (which includes the Bulletin), Five Dollars a Year

Produced under union conditions and composed and printed by union labor.

Washington News Letter



ANGLO-AMERICAN ACTION NEEDED TO CHECK PALESTINE VIOLENCE

The issue of Palestine has become a world problem of first magnitude because the resentment of American Zionists against recent British measures in that country is affecting Anglo-American relations. This resentment was given political expression last week, when some members of the House of Representatives, friendly to Zionism and disturbed by the plight of Jews in regions where they continue to suffer persecution, announced that they would vote against the British loan. Even if Zionist hostility does not defeat the loan, the Truman Administration fears that the Palestine issue will continue to disturb our relations with Britain.

CORE OF U.S.-BRITISH CONTROVERSY. The controversy over Palestine has been growing since June 12, when British Foreign Secretary Ernest Bevin, in his address to the Labor party conference at Bournemouth, analyzed the implications of the proposals published on April 30 by the Anglo-American Committee of Inquiry, which advocated the admission of 100,000 European Jews to Palestine as permanent residents. Some criticisms voiced by Americans in public life concerning Britain's delay in implementing this provision of the report have shown lack of fairness, because they fail to note that the Committee proposed the United States should assume certain obligations in that connection. The Washington Administration has not endorsed the Committee's recommendations that the United States relax its immigration laws and that it "participate vigorously and generously" with the British government in carrying out the report's suggestions. For example, British Prime Minister Clement Attlee has declared that the United States must provide military aid in Palestine, but on July 2 President Truman stated only that this country would give technical and financial assistance in the migration of the 100,000 Jews.

OFFICIAL CRITICISM OF BRITAIN. At the very time that President Truman is trying to solidify our collaboration with Britain in world affairs, he has himself joined the ranks of critics over Palestine. The wave of criticism started on June 15, when Senators Robert F. Wagner and James M. Mead of New York cabled a protest to Bevin concerning his remarks at Bournemouth. On June 24 Wagner, Mead and seven other Senators, protesting that Bevin had used "biased and untenable arguments" in his analysis and had revealed a "clearly hostile attitude" toward the report of the Committee of

Inquiry, requested Truman to press Britain to implement that report. The President on July 2 buttressed the view that Britain is wholly responsible and this country is free of blame for the course of events in Palestine, when he authorized the White House to issue a statement that the British had undertaken their current measures of military repression without consulting the United States. While from a legal point of view full responsibility for affairs in Palestine does fall on Britain, we cannot expect that country to follow the course we advocate unless we give it adequate material support.

Unrest in Palestine and British measures of repression have grown increasingly severe as the United States and Britain have delayed action on the Committee's report. The Committee had hinted at impending violence when it stated that "Palestine is an armed camp." The British forces in Palestine, acting under general instructions from the government in London, on June 29 subjected Palestine Jews to virtual siege in order to destroy the leadership of Hagana, the underground army of the Jewish community. Prime Minister Attlee told the House of Commons on July 1 that Hagana was associated with the Jewish Agency, which is officially in charge of Jewish immigration and settlement in Palestine. Violence spread as the Irgun Zvai Leumi, a more extreme underground organization, proposed on July 4 the "formation of a Jewish liberation army which would not lay down its arms until an independent Jewish state was established."

NEED FOR PROMPT ACTION. The cessation of warfare in Palestine depends on prompt political decision rather than on further use of arms. Yet action has been repeatedly postponed. Twenty days after publication of the Committee's report, the two governments invited Jews and Arabs to present their comments. Almost a month later the two governments set up Cabinet committees to explore further moves in Palestinian policy. These committees are to meet in London on July 14. Hope remains that they will devise a course to which both governments can readily subscribe. But the terrible plight of the Jews in Europe, 40 of whom were massacred in Poland on July 4, calls for a prompt and vigorous program of assistance. This means that the United States must take positive action in collaboration with Britain, and not merely offer criticism or advice from the sidelines.

BLAIR BOLLES